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POLAND'S ROUNDTABLE AND U.S. OPTIONS

PREPARED FOR THE

SUBCOMMITTEE ON EUROPEAN AFFAIRS

OF THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

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LETTER OF TRANSMITTAL

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC, June 12, 1989.

The HON. CLAIBORNE PELL,
Chairman, Committee on Foreign Relations,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: I enclose a study, prepared for the Subcommittee on European Affairs by the Congressional Research Service, on the Polish Roundtable and U.S. policy options.

In April 1989 the Polish Roundtable reached agreements on power sharing that for a Communist country were historic. The opposition was formally permitted to participate in decisionmaking, Solidarity was relegalized, freedom of association was enhanced, some significant steps toward a rule of law were taken and a second chamber—the Senate—of the Polish legislature (the Sejm) was set up. Contested elections were scheduled for June 4 and 18, 1989.

Although the Polish United Workers Party (the Communist Party) and its allied partners were guaranteed a majority in this first election, multiple party government is expected to result from subsequent votes. To be sure all the rights gained in principle at the Roundtable will have to be translated into effective democratic institutions. But the possibility of significant movement toward political freedom for the Polish people is encouraging.

Promising as the political and social developments seem, Poland's economic problems remain daunting. From the political agreements at the Roundtable the elected members of Solidarity and the government must soon turn to these difficult economic issues: inflation continues, real income is falling and the foreign budget debt is seemingly unsupportable. Even with assistance from the International Monetary Fund, the World Bank and bilateral support by Western governments, Poland cannot be assured of economic improvement. Under the best of circumstances austerity, unemployment, and dislocation seem inevitable. We must hope that the economic policy adopted is equitable and effective and that short term sacrifices lead to economic recovery and rising living standards.

For our part we in the United States should use our good offices to encourage not only further democratization but more reliance on market forces. Through private initiative and an equitable incomes policy the Polish people have a chance for materially improving

their lot. The enclosed study provides insights into the Polish Roundtable and U.S. options.

Sincerely,

JOSEPH R. BIDEN, JR.,
Chairman, Subcommittee on European Affairs.

LETTER OF SUBMITTAL

THE LIBRARY OF CONGRESS,
CONGRESSIONAL RESEARCH SERVICE,
Washington, DC, May 30, 1989.

Hon. JOSEPH R. BIDEN, JR.,
Chairman, Subcommittee on European Affairs, Committee on Foreign Relations, U.S. Senate, Washington, DC.

Dear Mr. Chairman: Enclosed is the study that you requested on the Polish Roundtable and U.S. policy options.

Dr. John P. Hardt, Senior Specialist in Soviet Economics, and Jean F. Boone, then a research assistant on our staff have been following Polish developments. In the course of this study, Dr. Hardt visited Poland at the invitation of both the Polish authorities and the U.S. Embassy in Warsaw. These visits and other European consultations provided Dr. Hardt the opportunity to prepare for the committee a paper on U.S. options in dealing with Poland that may provide you with up-to-date, concise insights. It describes policy options open to the Polish authorities and possible means of effective U.S. leverage that might encourage improvement in the political and economic situation in Poland consonant with both nations' interests. Throughout the study Dr. Hardt and Ms. Boone have been in frequent contact with John Ritch of your staff. The specialists from the Polish desk at the Department of State, other U.S. executive agencies and international financial institutions have also been most generous of their time and insights.

This paper represents an update to the study prepared for the House Foreign Affairs Committee, entitled "Poland's Renewal and U.S. Options: A Policy Reconnaissance" (March 1987), prepared for Chairman Dante Fascell and Subcommittee Chairman Lee Hamilton, and to its sequel "Poland's Renewal and U.S. Options: A Policy Reconnaissance, Update." That second policy paper was originally prepared to meet the needs of Representative Dan Rostenkowski, Chairman of the Ways and Means Committee, in preparation for his June 1987 meeting with members of Poland's parliament led by Roman Malinowski, and his subsequent trip to Poland which included a meeting with General Jaruzelski, among other Polish officials and citizens. Both of these papers were translated into Polish by Solidarity and the Sejm and widely read in Poland.

Periodically, we have conducted member and staff seminars funded by a generous grant from the Ford Foundation to bring up to date information on events in Poland. Dan Fried, Michael Hornblow, Laurie Tracy, and Thomas Simons (Deputy Assistant Secretary of State for the Soviet Union and East Europe) were welcome contributors to these workshops.

As the Polish legislature moves toward establishing a Senate and conducting its first democratic election in the post war period, we hope that this paper will have some utility in encouraging this democratization process.

Sincerely,

JOSEPH E. ROSS, *Director.*

CONTENTS

	Page
Summary	1
I. The Process of Reengagement: Toward a Critical Threshold of Change	3
II. Equivocal Progress: A Mixed Picture on Reform, Restructuring, and Renewal	7
A. Notable Success in Foreign Economic Performance	7
B. Slow, Uncertain Change in Domestic Economic Policy	8
C. Failure to Act on Political Reform and Social Renewal	9
III. The Round Table: Negotiation of a New National Accord?	13
IV. Crossing the Threshold: The Potential for International Support	19
Appendix: A Stocktaking of Programs for Poland—U.S. Government, Multilateral, and Private Sector Activities	27

POLAND'S ROUNDTABLE AND U.S. OPTIONS

SUMMARY

Since 1986, the United States has pursued a policy of step-by-step reengagement with Poland, gradually lifting the sanctions imposed following the imposition of martial law in Poland and reestablishing bilateral contacts. The process of reengagement has responded to indications of a renewed commitment by the Polish Government to economic and political reform, including the release of political prisoners and the development of a plan for comprehensive economic reform.

Nevertheless, concrete changes in Poland's foreign economic performance (including debt repayment), domestic economic policy, and movement toward political reform and social renewal were slow to emerge over the course of 1987–88. In particular, the government's failure to come to terms with the opposition forces and to generate social support left the reform program faltering, particularly in the wake of a wave of strikes and mounting inflation. As a result, Poland's reentry into the International Monetary Fund (IMF) and World Bank and renewed discussions with Western creditor governments had not led to any external material support. The "critical threshold" of change, which would lead to a reassessment of Poland as a credit and investment risk, had not yet been reached.

In this context, the round table negotiations between the Polish government and opposition forces, completed in April 1989, represent a long-awaited attempt to establish a political consensus in Poland that will allow comprehensive reform to go forward. While the discussions were designed to bring about dramatic and significant changes in Poland, including the re-legalization of Solidarity and the institutionalization of greater pluralism, they are unlikely to immediately resolve Poland's most critical problems, especially in the economic sphere. Three possible outcomes might be envisioned: breakdown of the implementation of the agreement, leading to further economic stagnation and social confrontation; partial success, in which political changes are agreed to but contentious economic issues remain unresolved, thus threatening the durability of the political achievements; and full success, that is, full implementation of the agreement between the two sides on both economic and political issues, with favorable resolution of the problem of generating public support for the agreement.

The challenge for the United States is in determining appropriate and effective responses to significant political change in Poland that will also support the objective of economic recovery. Coordinated and conditional Western action may still offer the most

promise, if based on an IMF stabilization program and involving also action on debt restructuring, World Bank project lending and bilateral programs. Within such a comprehensive framework, U.S. bilateral programs, using now established channels to independent groups in Poland, might reinforce the movement toward genuine pluralism while also addressing critical social needs, such as housing, food supply, environment, and medical care.

I. THE PROCESS OF REENGAGEMENT: TOWARD A CRITICAL THRESHOLD OF CHANGE

Since 1986, when Poland re-entered the International Monetary Fund, released most of its political prisoners, and renewed diplomatic contacts with the United States, the Government of Poland has undertaken a step-by-step process of reengagement with the West and rapprochement with Polish society. As we assessed these developments in mid-1987,[1] it appeared that the process of reengagement might be envisioned in three stages, if optimistic assumptions were fulfilled:

First Stage 1986–87: Removal of Negatives. End of sanctions, resumption of normal diplomatic and exchange relationships;

Second Stage 1987–88: Charting a New Course. Implementation in Poland of a new strategy of restructuring, reform, export strategy, and pluralism, leading to a favorable opening of the "Money Trail" (IMF and World Bank programs; Paris Club; and commercial bank rescheduling);

Third Stage 1988–90: Joint Implementation of Constructive Reengagement Programs. Development of bilateral programs which foster constructive change and full normalization of relations.

Although, in 1987, the "spirit of change" in Poland was evident and the draft plan for the Second Stage of Reform was under discussion, we noted at that time that certain critical changes were missing:

- A new substantially revised economic plan redirecting priorities, establishing new, functional planning and management systems, and firmly establishing an export orientation to the world market;
- Progress toward domestic monetary stability with credible plan for managing demand and supply in a disciplined manner that would close the inflationary gap;
- A significant pattern of established mechanisms and institutions that assure the second stage of reform will be translated into effective participation of society in decision making;
- Institutionalization of the rights of workers, farmers, and managers to assure their ability to participate and contribute to a political-economic consensus.

Now, in 1989, where does the process of Poland's domestic change and international reengagement stand? The first stage, the removal of negatives, was essentially completed with the U.S.-Polish exchange of ambassadors in February 1988. The resumption

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[1] See John P. Hardt and Jean F. Boone, Poland's Renewal and U.S. Policy Options, Update. References to The Final Document of the Economic and Social Policy Committee Roundtable [Dokumenty "Okraglego Stolu," Zolnierz Wolnosci] April 1989 references will use the short title, *Roundtable.*

of full diplomatic relations represents the last element of the step-by-step bilateral reengagement policy begun in November 1986 by U.S. Assistant Secretary of State Rozanne Ridgway and Polish Deputy Foreign Minister Jan Kinast. While this diplomatic reengagement has been aided by progress in Poland toward reforms that the United States supports, implementation of the "second stage" in all its elements—economic reform, restructuring, and social renewal—was yet to be sufficient before the Roundtable to cross the threshold from diplomatic interaction to substantive, joint programs either on a bilateral or multilateral basis. Thus, Poland remained in phase two of the reengagement process with a mixed record of reform implementation, awaiting the opening of the "money trail." The conclusion of the Roundtable holds promise of qualitative improvement.

During 1987–89, active discussions took place with the International Monetary Fund and World Bank. Nearly continuous representation by the international financial institutions in Warsaw and publication by the World Bank of a major study of Poland's economy indicated an intensive effort to identify Poland's needs, the kinds of programs the IMF and World Bank might provide, and the conditions under which a stand-by program and development projects might go forward. Poland also gained membership in the International Finance Corporation (IFC) in December 1987, another potential vehicle for assistance. Rescheduling agreements were reached with the Paris Club, and with commercial creditors as well, which will stretch out Poland's repayments and, in the case of the commercial debt, reduce the interest rate.[2]

On the domestic front, the government's program for economic reform—the "second stage"—was presented to the Sejm in October 1987 as an agenda of over 150 initiatives intended to change the economic administrative structure, stimulate entrepreneurship "in every sector and on every scale," and revise the structure of prices and incomes.[3] Accompanied by an extensive timetable for implementation, the program nevertheless had not yet led to many concrete changes prior to the Roundtable. Some legislation, needed to lay the foundation for changing the economic mechanism, had been passed on privatization and joint ventures. Results are still forthcoming.

Taken together, the modest progress from the adoption of the second stage of reform, the normalization of diplomatic relations with the United States, and closer engagement with the international financial institutions did not develop a momentum of change in 1988 that could be considered irreversible or sufficient for the establishment of external assistance programs. Rather, the process was set back: by the slowness of significant implementation of actual changes in plan priorities and policies; by an unsuccessful approach to domestic stabilization through referendum and price increases, leading to two outbreaks of strikes in April 1988 and August 1988; and by the inability or unwillingness on the part of

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[2] Haig Simmonian. Poland Secure Reduction in Debt Terms. The Financial times. July 20, 1985, p.20.

[3] See Stanislaw Chelstowski. The Second Stage Scenario. Polish Perspectives. vol. XXXI, no. 1, pp. 12–19.

the Polish government to proceed on significant political reforms. Indeed, the four areas of critical change, noted above as absent in mid-1987, remained substantially unfulfilled at the end of 1988.

For the most part, the constraints on change are not new nor basically changed by the Roundtable. The CRS study, "Poland's Renewal and U. S. Options: A Policy Reconnaissance" (March 1987), described a web of dilemmas, or "traps," complicating forward, coordinated movement that continued to inhibit Poland's progress. For example, the financial problem still entails an indebtedness trap: fresh credits will be needed to restructure domestic industries and fund investment in export industries intended to earn more hard currency and to service the debt; Western lenders, however, continue to look for greater assurance that debt servicing requirements will be met. Thus, the IMF has not yet negotiated a stand-by arrangement with Poland; World Bank programs and debt rescheduling prospects likewise remain linked with the conclusion of an IMF program. In relations with the Soviet Union, Poland may still face a solvency trap, the dilemma of balancing the requirements for domestic economic recovery in Poland with the sometimes conflicting requirements of the USSR to balance Polish-Soviet trade, to recover ruble debt from Poland, and to play a certain role in the CMEA division of labor. The Roundtable agreement acknowledges debt to the USSR as a "serious problem and calls for further rescheduling beyond 1995." [4]

In relations with the United States, the *sanctions trap* may be seen as continuing to affect the development of normal relations. Although the sanctions have all been lifted, bilateral programs are not yet fully funded or operative at pre-martial law levels, reflecting the continuing uncertainty that promises of political and economic change in Poland will be fulfilled. Furthermore, continuing support of Solidarity as an element of United States-Polish relations remains a focal point of disagreement.

Finally, the *stagnation trap* persists as a serious obstacle to implementation of reform—Polish society has demonstrated that it needs further assurances that there will be irreversible reform, open dialogue, and eventual improvement in economic performance before cooperating with change and supporting the government's reform proposals. Specifically, workers want indexation of wages and prices, perhaps until there are convincing evidence of equitable and successful price reform.[5]

Having recognized these continuing general constraints on change, it is necessary to consider in more detail the record of 1987–89 in implementation of reform, restructuring, and renewal. Three areas of progress are of particular concern to the United States, the international financial institutions and other external actors: the establishment of external equilibrium (a current account balance); the establishment of domestic equilibrium (bringing supply and demand into balance); and the establishment of political and social support for reform.

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[4] Roundtable, *Op. cit.*
[5] Ibid.

II. EQUIVOCAL PROGRESS: A MIXED PICTURE ON REFORM, RESTRUCTURING, AND RENEWAL

A. Notable Success in Foreign Economic Performance

Although Poland's debt service ratio (debt repayment obligations as a percent of hard currency exports) has been declining, it remains a burden, one that must be overcome to reestablish creditworthiness and move forward toward economic recovery. The negotiation of rescheduling agreements with its creditors represents one step toward an improved external balance, but a key indicator for the IMF and for commercial banks continues to be a balanced current account, which Poland may achieve through rescheduling by the Paris Club.

Still, Poland has made some progress since 1986 in expanding its exports to the West but without narrowing its current account deficit. Export (hard currency) revenues increased from $6,163 mln in 1987 to $7,248 mln in 1988, an increase by 17.6 percent, turning a trade deficit in 1987 into trade surplus in 1988. However in 1988, the current account deficit increased to $580 mln (from $417 mln in 1987).[6] The expansion of Poland's Western trade has been achieved simultaneously with the elimination of its trade deficit with the U.S.S.R., attributed largely to improved terms of trade and the possibility of generating a large enough trade surplus to service their external debts. If the hard currency current account deficit could be reduced in 1989, the Polish government might have the flexibility to achieve a current account balance, an important indicator for regaining creditworthiness. Deputy Premier Zdzislaw Sadowski, while in Washington in June 1988, cited 1991 as the target date for eliminating the payments deficit.

Additional measures have been taken to encourage foreign investment and expand exports, as new legislation has been introduced to improve conditions for joint ventures and other forms of foreign involvement in the domestic economy. Under the new Foreign Investment Law, fully foreign-owned companies are permitted and many of the current restrictions on joint ventures have been eased, allowing joint ventures to be established in more sectors of the economy, to hire an unlimited number of employees, to receive an initial tax-holiday and lower tax rates, and repatriate profits with lower hard-currency resale requirements.[7] These changes, which went into effect in January 1989, would appear to be useful steps in opening the economy and creating better incentives for in-

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[6] Zycie gospodarcze, No. 32, 1988; *PlanEcon Report*, January 20, 1989. Data from Maria Rubel and Grzegorz Wojtowicz, "Bilans platniczy Polski '88" (Poland's Balance-of-Payments in 1988), *Zycie Gospodarcze*, No. 11, March 12, 1989, p. 13).

[7] Hubert Gabrisch. Joint Ventures in Poland: Past Eperiences and Announced Changes. Vienna Institute for Comparative Studies. Mitglieder information, no. 12/1987, p. 16–17. Also Business Reform Bills Approved in Poland. The Financial Times. December 24, 1988.

vestment that may allow the number of joint ventures to rise from the 36 currently in operation. Nevertheless, for these and future foreign ventures to operate most effectively and to realize the potential for redirecting Polish enterprises to the world market, it will probably require further progress in domestic reform, including the strengthening of enterprise independence and responsibility, increased incentives to be competitive in exports to the world market, progress toward convertibility of the zloty and the restructuring of investment.

B. Slow, Uncertain Change in Domestic Economic Policy

Despite acceptance of the new reform blueprint—the "second stage"—and development of legislation on various issues designed to lay the foundation for reform, actual changes in the economic mechanism and structure have been slow to emerge. Old, monopolistic plants (often obsolete or unfinished) need to be replaced, but efforts are frustrated by the "steel syndrome," the powerful lobbies for traditional industries. While small scale, entrepreneurial cooperatives are being encouraged in theory, their development is inhibited by the existing, hierarchical state cooperative structure into which they still must fit. Small, individualized farms, though numerous, are constrained in their productivity by restrictive state contracts and denial of access to the infrastructure and supply system. Furthermore, the anti-foreign trade bias inherent in a price-subsidy system is reinforced by continued preference for the politically comfortable, captive market of the CMEA and Soviet Union, reducing the incentive to compete in the world market.

In addressing these problems during the past year, the Polish government has presented a pattern of apparently contradictory actions—what is given with one hand is then taken away with the other. Thus, a review of investments, called for by the Economic Reform Commission, was undertaken, but only new projects have been dropped, an approach which may undermine the real utility of the review, that is, to eliminate continued investment in obsolete, inefficient plants begun in the last decade.[8] Likewise, according to a 1988 law on private economic activity, cooperatives and privately owned enterprises are to receive treatment equal to that of the state sector and yet, as long as the old structures of supply and marketing remain and subsidies to state enterprises are not eliminated, cooperatives and private businesses will be unable to compete.[9] Another example of offsetting initiatives may be seen in the "special powers" introduced in May 1988 which are presumably intended to speed up reform and control inflation by giving the government the rights to fire managers, merge and divide enterprises, accelerate bankruptcy, and impose extra taxes on companies (to prevent wage hikes). Instead of placing these powers in the hands of Deputy Premier Sadowski, then the government's lead re-

[8] Zycie gospodarcze, No. 18, 1988.

[9] The legislation establishing equal treatment, the Law on Economic Activity approved at the end of 1988, is quite far-reaching in terms of removing impediments from the process of undertaking private business. (See Business Reform Bills Approved in Poland. The Financial Times, December 24, 1988) Nevertheless, changes in the socialist sector may be necessary for its effective functioning in practice.

former, to be applied against the ministerial bureaucracy and lobbies, they were delegated to the central ministers who, many fear, used them to reduce the decision-making authority of managers and re-centralize the economy. Some suggest that the special powers are too sweeping to actually be used and therefore did not represent a threat to the decentralization process; still, such a conclusion indicates that they served no positive purpose in advancing Poland's reform.

Perhaps the most serious problem in the domestic economy is the persistent disequilibrium in demand and supply which has fueled a sharp rise in inflation throughout 1988 and into 1989. The Polish government attempted to reduce demand by raising prices on many basic consumer goods while holding down wages. Faced with the outbreak of strikes in April following the implementation of price increases, the government responded by allowing significant wage increases in the disrupted factories. This pattern was repeated throughout the year, especially in August 1989, at many individual enterprises. As a result, inflation was estimated at over 100% at the end of 1988, and the population's perception that price reform means only lost purchasing power, without increased supply, has been confirmed.

As in the cases noted above, the Polish Government's implementation of price reform was, in practice, contrary to its stated intentions. In contrast to the implemented policy, a program for addressing domestic disequilibrium was developed by Wladyslaw Baka, then Head of the National Bank, later Politburo member and government economic panel negotiator at the Roundtable who called for a balanced approach of "dynamized supply" combined with adjusted demand. Price increases would focus first on luxury goods, such as cars and consumer electronics, rather than on basic subsistence goods, particularly food. Although the Baka Plan was officially endorsed and partially incorporated into the "second stage" program, the approach taken by the government in the spring of 1988 seemed to repudiate it. It may be revived in the wake of the Roundtable.

The outbreak of strikes not only created pressure for increased wages and thus, inflation, but also suggested a failure of popular perception and of government efforts to secure the population's toleration of price reform. Thus, despite some modest progress in moving ahead with the second stage program, the strikes raised uncertainty about the future prospects for reform and highlighted the lack of progress in social renewal.

C. Failure to Act on Political Reform and Social Renewal

The Polish government came to recognize only slowly, over the course of 1987–88, the importance of engaging popular support for the difficult reform process. The experience may be worth recounting because changes in government attitude may not turn out to be as great as the Roundtable document suggests. Its first initiative in this respect was to propose a nationwide referendum as a means of involving Polish society in the reform decision. Polish voters were asked on November 29, 1987, if they favored two broad objectives:

- To carry out the full government program for radical economic recovery aiming at improving living conditions, on the understanding that this would require a difficult two-to-three year period of rapid changes;
- To introduce a new "Polish model" for democratizing political life, aimed at strengthening self-government, extending the rights of citizens and increasing their participation in running the country.

The response appeared positive: 66 percent of those voting responded yes to the first question; 69 percent responded yes to the second. But the practical impact of the vote for stimulating a cooperative government-society effort remained negligible for several reasons. First, according to the government's own rules, the referendum was a defeat in that the law defines approval as requiring a majority of all eligible voters, not a majority of those voting. On these grounds, only 44 percent of the electorate supported proposition one and 46 percent proposition two; thus, the government was faced with an ambiguous outcome, difficult to characterize and for which to mobilize enthusiasm. More importantly, perhaps, the referendum proposals were too broad to have concrete meaning as options. While the effort may have been significant as a symbolic recognition of society's role in accepting and responding to reform, it was not, in itself, a sufficient mechanism of participation. The opposition of Solidarity to the referendum, based on the vagueness of the referendum choices, and the disinterest of many in voting seemed to reflect the continuing perception that the government is interested only in a superficial endorsement of its decisions, not the active involvement of society in selecting among alternatives.

The inadequacy of the referendum for engaging or demonstrating societal support became clear with the implementation of price increases in early 1988. The government raised prices less sharply than planned, given the results of the referendum which they interpreted as demonstrating limited popular support for price reform. Nevertheless, the action seems to have been perceived by the population as the primary manifestation of reform, falling largely on consumers and not offset by concessions or improvements in other areas. The subsequent outbreak of strikes and widespread demands for wage increases, climaxing with the strikes at Nowa Huta and Gdansk, raised serious questions about the continuing political and economic polarization and the effectiveness of efforts to address social disaffection and what might be termed the rising *frustration index* of the population.

During 1988, the frustration of the Polish populace and the disinclination of the regime to cross a line of political change that could involve an irreversible loss of power became increasingly clear. These phenomena, which appeared in May to threaten the prospects for implementing economic reform and social reconciliation, have been present and building over a long period and have been well described by Polish commentators and observers. In particular, Stefan Nowak, one of Poland's most respected sociologists, noted in a major 1987 study:

> Rather large numbers of Poles today find themselves facing blockages everywhere: in the sphere of public phenomena, in their personal and material needs and objectives, in their ex-

> pectation of future material stability. People inevitably find themselves in a state of generalized frustration; moreover, they do not expect rapid improvement in any of the spheres in which they perceive blockages.[10]

Problems of housing, medical care, and environment may be especially potent sources of dissatisfaction where government action seems inadequate and prospects for improvement elusive. Among the dramatic indicators of the social and economic crisis, it has been noted that 25–35 percent of Poles live below the poverty line; the waiting period for one's own apartment may be 30 to 50 years; necessary medicines and medical equipment are widely unavailable; and pollution of Poland's water and air has reached dangerously high levels.[11] While none of these problems are immediately resolvable, the demonstration of political will to address them and to engage support (both domestic and foreign) could provide a basis for concrete progress. (Note "Polish Initiatives and U.S. Programs," below) Beyond measures of material hardship, however, barriers to participation and democratization comprise an important element of political and social frustration. Nowak's study emphasizes this point:

> Among the needs studied—personal, living conditions, and public goals—the most frustration was found in the effort to influence the fate of the country . . . Today, as in the past, people perceive various barriers in the way of their possibilities for action. The removal of these barriers and the opening of the system to grass roots, individual and collective participation would make possible the creation of an organizational framework for such initiatives from below. This is the prime task. People are awaiting (perhaps more eagerly than ever before) the decisions of authorities that will open the system to initiatives.[12]

Despite stated intentions to introduce various political reforms, the government of Poland seemed unwilling throughout 1987–88 to take even modest steps toward expanding the rights of association and participation. Translation of the "theses" for the second stage of reform from rhetoric to action continued to be defeated within the Party leadership out of an apparent fear that any concession, no matter how minor, will represent the first step toward inevitable loss of government or Party power. Abraham Brumberg observes that "even those in the apparatus who favor serious reforms are apprehensive about perils to their own power—above all, the loss of control of the *nomenklatura,* that is, over appointments to the senior jobs in the bureaucracy." [13] Thus, the Party's Central Committee approved, in October 1987, a policy of expanding political liberties by removing "restrictions on associations and activities

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[10] Stefan Nowak. Polish Society in the Second Half of the 1980s: an Attempt to Diagnose the State of Public Consciousness. Translated by the International Research and Exchanges Board. January 1988, p. 32

[11] See, for example, Adrian Karatnycky. Poles' Daily Grind: Bad and Worsening. The Wall Street Journal. May 10, 1988.

[12] Nowak, pp. 29, 39.

[13] Abraham Brumberg. Poland: the New Opposition. The New York Review. February 18, 1988, p. 25. A later article by the same author offers an insightful analysis of the role of the opposition and Solidarity in particular as the round table talks get underway. See Poland: State and Society. Dissent. Winter 1989, pp. 47–55.

that do not violate constitutional rules," [14] but organizations seeking to register faced delay or denial. Among those whose efforts to register were frustrated in 1988 are the Polish Journalists Association and the Warsaw Economic Society, a group of businessmen and economists interested in the expansion of private enterprise. Continued application of such a conservative view of reconciliation and "socialist pluralism," one that sees every independent initiative as simply the "camel's nose" leading inevitably to complete loss of power, appeared to be leading to the deepening of polarization and stagnation in Poland.

The outbreak of a second round of strikes in August, more widespread than in April, demonstrated again the inadequacy of government measures in political and economic reform. As wages were raised in enterprise after enterprise in order to stem the labor unrest and price increases revoked, inflation soared. Spurred by this apparent deepening of the economic crisis, the government proposed the Roundtable negotiation with opposition forces, including Lech Walesa, in an effort to devise an "anti-crisis pact" that would provide a basis for moving forward with reform. The willingness of the government to negotiate, and to reach agreement officially with Lech Walesa, seemed to offer new hope for breaking the stalemate that had prevailed throughout the year, indeed for over a decade.

Still, changes that are equivocal, reversible, and without accountability are not likely to overcome the deep skepticism and negative power of the anti-government opposition. What is needed is not only the accord of the Roundtable but a process that provides necessary safeguards against the reversal of both the spirit and the letter of the Roundtable agreement and that offers credible participation in exchange for a collective commitment to effective change. Some government participants in the Roundtable aver that a qualitative new environment has emerged with the Roundtable agreement, that Polish patriotism has been set behind the consensual implication of the sharing of power and responsibilities in the Final Document of the Roundtable.[15]

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[14] Tybuna Ludu, 24-25 Oct. 1987, text of appendix to referendum.

[15] The view was expressed to the primary author of this paper by Josef Cyrek, Senior Politburo member, during his Washington, D.C. visit on May 15, 1989.

III. THE ROUNDTABLE: NEGOTIATION OF A NEW NATIONAL ACCORD?

Getting the Talks off the Ground

Although the government first proposed the convening of a "roundtable" discussion with the opposition in September 1988, it took five months to bring such a meeting to fruition. The initial offer, extended under the pressure of the August strike wave, brought to the surface deep divisions both within the government and among the opposition forces. The government side seemed divided between those prepared to begin negotiation on political issues, including the question of Solidarity's legal status, and those who refused to accept any accommodation of the opposition. Among the opponents of dialogue, the official trade union organization felt particularly threatened by the prospect of a legalized Solidarity and maintained a vocal resistance to the talks.[16] Within the opposition forces, a split along generational lines became evident, pitting the young, impatient workers who were reluctant to end strikes without strong guarantees by the government of full union legalization and pluralism, against Walesa and many of the older Solidarity leaders who professed more readiness to begin discussions.

As each side jockeyed to engage the support of its own constituency and to determine appropriate conditions for the talks, the government backed off and the prospects for a roundtable began to fade. The announcement by the government on October 29 of plans to close the Lenin Shipyard in Gdansk, a primary Solidarity stronghold, as its first "restructuring" project, further strained the atmosphere and heightened suspicion of the government's intentions. In a show of renewed commitment to the political negotiations, however, the party leadership initiated major changes in the Politburo in December 1988, removing six of its 15 members considered resistant to reform, and promoting eight new members to the body. A subsequent meeting of the party's Central Committee accepted the principle of trade union pluralism, including the legalization of Solidarity, as a basis of roundtable talks, on the conditions that Solidarity recognize the party's dominant role, reject Western financial support, and support economic reform.[17] These developments, while not entirely acceptable to Solidarity forces, were sufficient to bring both sides to the table to begin negotiations on February 6, 1989. Comprised of high level leaders from the government, the party, and the opposition, the large plenary meeting was

[16] See, for example, the speech of Alfred Miodowicz, Chairman of the official trade union, at the January Central Committee Plenum, in Trybuna ludu, January 18, 1989.

[17] And this agreement was only obtained after two and a half days of tense debate, culminating with Jaruzelski threatening to resign. Trybuna ludu, January 19, 1989.

divided into three major working groups on the questions of political reform, economic reform, and trade union pluralism.[18] Under the three committees, sub-groups have been organized; in addition, alongside these committees are a number of independent groups discussing issues such as legal reform, housing, health, environment, and agriculture.

The Church is represented at the discussions through two observers. As in the past, the Church appeared to be striving to play a mediating role between the government and opposition; its presence through the observers was intended to facilitate the negotiations and allow it to be a "guarantor" of any agreements reached, holding both sides to their commitments. Legal recognition of the Catholic Church and resumption of diplomatic relations between the Vatican and Poland came about after the Roundtable in May 1989.

Where were the Talks Intended to Go?

Having sat down together at the table, what was each side hoping to achieve? Were the respective agendas of the government and opposition compatible or in conflict? For both sides, the fundamental issue in these discussions was pluralism, but how pluralism is to be defined and what it is used to accomplish may turn out to be points of serious disagreement in implementation of the Roundtable agreements. For the opposition, the concept of pluralism was centered on the legalization of Solidarity as a trade union and the institutionalization of a political role for diverse groups and movements existing in Poland. This emphasis was clearly on the political side of the agenda, based on the conviction that economic reform could only proceed when the disparate social forces are actively involved in decision-making. As one of Walesa's advisors stated, "Walesa aspires, therefore, to build a reliable coalition which would place Poland's interests above narrow group interests. . . . This dialogue should specify . . . a place in the political system for the many institutions organizing this pluralistic society."[19] This goal seemed to be reached in the agreements, but the elections and political restructuring will put it to test.

In contrast, the government's objectives were derived from the country's economic problems and thus, its concept of pluralism was first and foremost a means of getting Solidarity, and through it other social groups, to take co-responsibility for the painful process of reform. The difference between the groups' basic goals is acute: dissemination of the power to make policy versus dissemination of the responsibility for its results. As both sides shared the view that drastic changes in the institutional arrangements were needed to avoid the catastrophe that might result without change, they found a path of compromise between these perspectives at the Roundtable. Still, the structure of the talks—the separation of economic

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[18] The table on political reform was co-chaired by B. Geremek for the opposition and J. Reykowski for the government; the economic reform table was co-chaired by W. Trzeciakowski for the opposition and W. Baka for the government; and the trade union pluralism table was co-chaired by T. Mazowiecki for the opposition and A. Kwasniewski for the government.

[19] Andrzej Celinski. In the aftermath of the August strikes: a Studium papers survey. Studium papers, vol. XII. no. 4, Oct. 1988, p. 99.

and political issues — may make it difficult to negotiate the sensitive trade-offs between the two sets of problems. A key test will come in the handling of the indexation question: will the government, the opposition forces, and the workers all accept a degree of austerity in the interest of monetary equilibrium.

In the political and trade union working groups, the parameters of a possible agreement seem to be emerging that address the question of pluralism in trade union representation, in the parliament, and in the organization of independent associations. First, such an agreement involved the legalization of Solidarity as a national organization, not merely as a contender for union representation in certain plants or certain localities, as seemed to be the government's position earlier. The Solidarity activity would likely be circumscribed in some respects, however, with a limit on the right to strike. The government has agreed in principle to legalize Rural Solidarity as well.

Second, it would provide for an opposition role in the Sejm (parliament), by creating a second chamber, the Senate, whose members would be elected freely. While this arrangement would produce a Senate in which the Communist Party is only a minority, its dominant political role would be preserved through the creation of a strong presidency (expected to be held by a Party member such as General Jaruzelski) and by electoral conditions for the first chamber of parliament that result in a Party majority. Thus, in voting for the first chamber (the current Sejm), 35% of the seats would be reserved for opposition candidates, elected in relatively free, competitive elections, while the remaining 65% would be held by the Communist Party and the other parties and groups that are allied to it (e.g., the Democratic and Peasant Parties). The evidence of increasing independence of the Peasant and Democratic parties suggest that the Polish United Workers Party—the Community Party—may have to share more power earlier than expected. The institutionalization of a legal opposition represents a significant change, unmatched by any previous political reforms, even though it falls short of truly free elections in which opposition candidates could challenge party candidates in every district for both houses. Still the election result gave Solidarity a de facto majority.

Nevertheless, the agreement would also include the granting of new rights to "political associations" which in effect permit the organization of political parties. These associations would have the right to nominate candidates and would have the right of access to the media, thereby ensuring that they could in fact compete against the Communist Party nominees. Already, a number of organizations are establishing themselves as political parties; notably, the Christian Democratic Labor Party, an active party in the pre-war period, announced its "reformation" recently. With its relegalization, the Catholic Church was given unprecedented rights of access to media, education, and property rights, returning it to a general *status quo ante* before the rising of Communist power.

All of these apparent concessions by the government, while perhaps not meeting the opposition's most far-reaching demands, are dramatic and significant in their implications. They do not come without a price, however. The government requires Solidarity's support for the entire package, that is, including economic meas-

ures, where there has been much less indication of even the broad outlines of a compromise. Most critically, the government seeks support for price reform, which inevitably means raising prices, while Solidarity's agenda includes a demand for wage indexing (requiring enterprises to increase wages as prices rise) which would dilute the impact of price reform and fuel inflation. Furthermore, the government is concerned about addressing the foreign debt and has acquired new special powers to deal with the economy, objectives which would likely involve sending more hard currency earnings out of the country for debt repayment and the closing of obsolete plants in order to modernize and restructure the economy. Accomplishing the government's economic goals will require holding together the consensus and control from the top; in contrast, Solidarity's agenda stresses decentralization and the role of workers, at the expense of government (and party) control: worker self-management; privatization of medium state enterprises; further freeing of foreign trade rights; elimination of the *nomenklatura;* reductions in defense spending. While the opposition lost some of its aims in terminating special privileges and power of the Party apparatus (the nomenklatura) their other demands were met in the letter of the agreement.[20]

Reform in terms of power sharing is clearly an important element for moving beyond the current gridlock but must be balanced with attention to the needs of economic restructuring and renewal. Granting more power to local industries and workers' collectives that represent monopolies or unproductive facilities could move economic reform backward, rather than forward. This may arguably be the lesson of Nowa Huta, where demands for continued subsidies and wage hikes could serve to commit scarce resources to inefficient production. Moreover, loans and stabilization programs from the international financial institutions are not likely to be forthcoming until there is a clear sign of commitment on debt repayment, demand management, and restructuring.

In light of the tentative agreements and continuing conflicts described here, what is likely to be the outcome of the roundtable agreement? At least three alternative scenarios seem possible, each of which would produce real, but different, challenges for Poland. First, the agreement might break down in implementation, given disagreements within the constituencies of both sides and the fragility of the environment for cooperation. In such a case, continued stagnation and confrontation is a serious prospect for the future with the ever present possibility of violence and uncontrollable consequences. Second, there could be partial success in implementation, whereby political agreements reached are put in force but stalemate continues on the implementation of economic reform. Without significant economic changes and the external assistance that is tied to a track record on economic reform, there is little prospect of improvement in basic living conditions and therefore, little prospect that political accommodation would be long lasting. Finally, there could be full success, that is, implementation of the Roundtable agreement including the spirit of an "anti-crisis pact"

[20] *Roundtable*, Op. cit.

that includes both political concessions and a consensus on economic reforms. This outcome, too, poses a problem if the agreements reached by Roundtable participants are not accepted by the population at large. Generating broad support and popular tolerance for further hardship may be difficult, even for Solidarity forces. Many observers have noted the stark difference in atmosphere between the 1980–81 recognition of Solidarity when popular excitement was high and the current period when skepticism and deep dissatisfaction seem to characterize the nation's mood. In fact, an official poll taken in early 1989 reported that 65 percent of Poles have little or no confidence in the government authorities and do not believe there will be any significant improvement in the near future.[21] Still, others suggest that the Polish populace is far more realistic and mature than in earlier crises. If the Roundtable consensus leads to reasonable implementation plans supported materially by Western governments and international institutions. And if the Soviet Union is perceived as supportive rather than exploitive of the current Polish vulnerabilities, then a broad consensus is possible. This optimistic view is, however, not supported by scientific polls or evidence of consensual actions to date.

[21] Trybuna Ludu, February 20, 1989.

IV. CROSSING THE THRESHOLD: THE POTENTIAL FOR INTERNATIONAL SUPPORT

With the Roundtable outcomes, the United States has been faced with a dilemma of how to respond or to encourage progress. Although the United States has a variety of bilateral programs that could be activated or expanded in recognition of substantial change in Poland, their actual impact on Polish conditions may be reduced in the absence of a coordinated approach involving World Bank and IMF programs and debt rescheduling by commercial banks and the Paris Club. And yet, these more far-reaching responses depend on progress in Poland in the economic sphere. In order to bring into play the whole range of Western sources of support, political reform is thus a necessary but not a sufficient condition. For this reason, the "partial success" scenario of political change without economic agreement could pose a certain challenge to U.S. policymakers who seek to respond in a way that will be effective. Seeming to respond to the logic of encouraging the full success scenario the Bush Administration and the Congress are proceeding to provide economic assistance that is conditional on application to the political and economic reforms in the Roundtable agreement, but without evidence of implementation by results. The joint Administration-Congressional approach would appear to provide some incentives for the Polish authorities to adhere to their plans or sacrifice future support.

The challenge may first arise with respect to the question of debt repayment. From the Polish side, it is argued that economic reform cannot be implemented unless there is some moderation of the immediate debt burden. According to reports, the opposition and government have agreed to jointly request debt relief from Western banks and governments.[22] If such a request is made, on the basis of political reforms in Poland acceptable to the opposition, should the Western creditors move to reschedule the debt, and if so, under what conditions?

The Polish National Bank and the National Academy of Sciences (under the leadership of Witold Trzeciakowski) have each developed a study of the debt repayment problem and appear to agree in general approach, suggesting a possible basis for the joint government-opposition appeal.[23] Both the Bank and the Academy seek to estimate projected Polish export earnings, then limit debt repayments to a fixed percentage of these earnings (for example, 20 percent-40 percent), rescheduling the debt accordingly. The major difference between the government's model and that of the Academy

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[22] See, for example, John Tagliabue. Solidarity Plans to Join the Regime in asking Debt Aid. The New York Times. March 3, 1989, p. A1.

[23] These approaches were described in discussions with Witold Trzeciakowski and in his published writing, particularly "The Possibility of a Solution of the Polish Debt," published in Forschungsberichte. The Vienna Institute for Comparative Economic Studies, 1987.

of Sciences is in estimating export earning capacity: the government projects exports to grow by 6.4 percent annually, while the Academy suggests this is over-optimistic, estimating growth instead at only 3.4 percent per year. Notably, the Academy plan, in making a more pessimistic earnings projection, would lead to lower repayment commitments than the government plan, if other assumptions remain the same (such as interest rates).

As its Polish proponents argue, debt rescheduling on this basis would establish repayment requirements that are sustainable and would allow for the utilization of critical hard currency earnings to support reform objectives. Although Western banks oppose any form of debt relief that could set precedents for other debtor nations, more innovative and distinct debt management strategies are now emerging to address the particular needs of various debtor countries. In the Polish case, Western governments—particularly if faced with a partially successful Roundtable--may have a greater interest in a new debt plan that releases some proportion of hard currency earnings as a means of both reinforcing political reform and promoting economic reform.[24] A renegotiation of the Paris Club agreement with Poland could allow Poland to meet its immediate needs: first, to meet repayment obligations on a current basis, then to negotiate a program with the IMF. According to this view, the release of hard currency earnings made possible by new debt agreements would provide a means for the government to address its central dilemma — to demonstrate to the IMF and other external actors its determination in implementing reform, particularly in the critical area of demand management, while gaining public support for the unescapably difficult reform process.

Thus, the earnings not applied to debt repayment might be utilized under conditionality that directs them not only toward projects that will remove bottlenecks, generate exports, and support restructuring, but also efforts to address serious social problems such as food supply, housing, medical care, and the environment. In these areas, the involvement of independent groups and private enterprises (as legalized through the Roundtable negotiations) might also be promoted through conditionality. If visible programs aimed at improving living conditions could be implemented alongside gradual (but unavoidable) price increases, the potential for widespread public rejection of reform that would eliminate all hope of recovery might be reduced. Even if Western banks and governments were to act on such a basis to reschedule Polish debt, the essential foundation for establishing and monitoring a policy of conditional support, and for developing a longer term program for Polish recovery remains an IMF stabilization program, accompanied by World Bank loans.

The policy issues for the United States, then, include not only whether to act on bilateral programs with Poland (such as the proposed extension of GSP status and an OPIC agreement), but also

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[24] It may be noted that Poland is the second largest debtor to the Paris Club governments, in contrast to its position among commercial bank creditors, where its debt is small relative to other countries. The significance of this difference may be that, while there is little incentive in the commercial sphere to risk innovative strategies for Poland for fear of setting preconditions for countries with larger commercial debts while setting precedents for other, larger debtors, in the Paris Club context an innovative approach may carry more gain and fewer risks.

what role to play in the critical multilateral forums and in coordinating the actions of these various external actors. To a considerable degree, the impact of U.S. bilateral action is tied both to changes in Poland and to the implementation of multilateral programs. As illustrated by the tables below, the relationship between Polish initiatives, multilateral programs, and U.S. bilateral programs for advancing Polish economic recovery is a synergistic, interdependent one. In this framework, reform refers to changes in the economic mechanism itself; restructuring refers to changes in the allocation of investment and economic structure; and renewal refers to changes in the political and economic relationships of government and society.[25]

Although it is not clear what each party will propose or what will be accepted, the following scenario reflects some of the specific prospects referenced in this table:

1. *Paris Club.* As Poland is not current in payment of interest and capital on government debt, a reduced payment may be requested to satisfy the requirement of becoming current on debt servicing, a general deferrment or partial payment say $600 million. The remaining arrears of $3 plus billion would be rescheduled for later payment. Current account equilibrium might be reached in the early 1990's, then growth of debt could be stopped. If there were U.S. inflation, this equilibrium would be harder to reach;

2. *International Monetary Fund.* If Poland is current on debt servicing, the IMF may consider a standby program with appropriate reform commitments. These would especially involve reducing the inflationary gap. The dispersal at quarterly periods could start out small, say $50 million a quarter, and build up to say a total of $500 million if the track record on implementing reform is convincing. The first installment might precede agreement on conditionality with subsequent dispersals tied to agreement;

3. *IBRD (World Bank).* With an IMF standby, the Polish government would expect that the World Bank would begin dispersal of some $250 million in "debottlenecking" programs for specific sectors such as energy and agriculture and to recapitalize and overcome spare parts and other bottlenecks in foreign export sectors.

Once IMF and World Bank standby and development programs are initiated, follow-on programs would be expected to assist Poland in overcoming their monetary imbalance and begin the restructuring of their economy. These connections would presumably prepare Poland to reenter the world trade and credit markets on a normal basis, e.g. new credits would be available and prospects for restructuring the debt would be expanded.

A serious question of initial reform measures that might be introduced to satisfy the IMF concern about beginning demand management to overcome the inflationary gap. Faced with a likely negative popular reaction to sharp increases in meat prices and drop

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[25] Detailed description and status of multilateral and bilateral programs can be found in the appendix, "A Stocktaking of Programs for Poland: U.S. Government, Multilateral, and Private Sector Activities." See also the "Money Trail" in Update, op. cit., pp. 24-28.

in real income, the opposition has proposed indexing (the old Gomulka-Gierek problem). There may be other ways to reduce the budget deficit and inflationary gap and still get support of the populace drawing from Hungarian experience. The Hungarian approach is to discuss and explain price increases, adjust to popular reactions, make adjustments but follow through on price increases, then try to offset the impact of most onerous changes. What this approach might mean would be after the de-rationing of meat, increased prices would apply initially to more expensive meat products. At the same time, efforts could be made through investments and priority to private agriculture to get more meat on the market. Indeed any increase in food supply, even with rising prices might be helpful. Surplus food, e.g. cheese and meat, and cotton might be made available from the United States or the European Community.

Beyond the dual use of demand management and increased supply of food cooperatives and other means of absorbing purchasing power with a prospect of increased income, might be a series of targeted approaches to sectors of high social value, reflecting what we called above the "frustration index."

- A targeted program might be tried to increase the supply of all *housing* by a variety of incentives and shifts in investment priorities, e.g. more privatization in small towns and the countryside, increased availability of building materials, mobilizing local efforts through cooperatives and newly independent local councils and rural solidarity units; more priority in urban housing might include use of military construction units for civilian housing, incentives to joint ventures to take on urban housing and hotel development. No effective plan could be prescribed for outside Poland but the old approach seems to be long on reasons why little can be done and short on progress in housing. Another element in "new thinking" would be to reallocate housing according to need and productivity rather than status and privilege. Bridges between private housing funds in Poland and Western construction enterprises could be useful private initiatives.
- A targeted program might be undertaken to show both short and long term results in *health care*. In the short run foreign assistance may be sought to meet some of the critical shortages in supply of standard elements of medication. In the longer term a serious transition to modern diagnostic medical care would be in order. Medical expertise through exchanges as well as transfer of facilities would be useful.
- A targeted program might be tried to deal with the most critical *environmental hazards* and to mobilize domestic and foreign sources for a coordinated effort to develop clean air and water as well as to reduce other pollutants. This could be tied to science and technology exchanges. Debt to nature conversions were specifically mentioned in the Roundtable agreement.
- A targeted program might be undertaken to *enhance food supplies* in the market by facilitating production and marketing of private, individualized agriculture, and encouragement of joint

ventures and other methods of upgrading agricultural production and delivery.

Each targeted program could then be paired with a foreign set of programs such as Catholic Relief for the Agricultural Foundation, Project Hope for medical supplies, the World Wildlife for environment [see Stocktaking enclosure for more relevant U.S. programs]. Were such programs for targeted approaches to social needs coupled with a price reform program, some degree of popular acceptance might be more likely. As noted in the Roundtable agreement, efforts should also be made to reconstitute independent professional associations of legal, medical, and other professions to assure improvement in quality.

Resolution of debt management of the some $3 billion Soviet debt and close to $2 billion Middle Eastern debt should also be part of the adjustment program. Full disclosure to Western creditors and measures to encourage cooperation by the Soviet Union and others would be helpful. The Roundtable recommended rescheduling the Soviet debt.[27] It would also be of crucial importance for the United States to discuss with all Western creditor countries joint approaches to facilitate the implementation of democratic and market-oriented reform in Poland.

Beyond the short run, the Polish government seems to be awaiting crossing the threshold of obtaining IMF standby and World Bank restructuring programs before laying out long-term plans. These would presumably be laid out in an agreement at the Roundtable with the government and the opposition. Concrete long-term plans and programs are overdue. Their features may include several areas:

1. Rescheduling and Reducing the Debt Burden.

The representative of the opposition at the Roundtable, Dr. Witold Trzeciakowski, if he follows his past writings and views, would propose a renegotiation of debt based on a reduction of interest rates and a stretch out of debt servicing to be limited to a portion of convertible currency earnings, e.g. 20 percent. Debt reduction would also be keyed to forms of debt conversion that might be conditioned on use of funds for private agriculture, environment, and other social programs. For example, in terms of water quality improvement, the Agricultural Foundation, which Trzeciakowski has headed, would presumably be a model. Although forecasts may differ between the government and opposition each would favor some long-term debt reduction plan. The IMF, Paris Club, and the panel of Western commercial creditor banks would play a critical role in reviewing and monitoring these programs.

2. Technological Restructuring of the Economy.

Modernization of the urban and rural economies will require substantial dislocation and relocation of plants and labor force. A care-

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[27] *Ibid.* Jaruzelski's trip to Moscow, April 27–29, was favorably reported in Soviet and Polish press. No specific mention was made in either *Pravda*, April 29 or May 3 or *Trybuna Ludy*, April 29, May 1, of Soviet economic aid including debt rescheduling. While Soviet leader Gorbachev has called for filling in the historical "blank spots the Soviets have still not accepted the Polish and Western version of the Katyn Forest massacre.

fully developed and financed long-term program will be essential. The World Bank could play a critical role in assisting the development, approving appropriately conditional loans and monitoring these programs.

If these major reform programs are initiated with Polish reengagement in the world commercial and financial markets, a number of bilateral and multilateral programs would be helpful in conditioning and facilitating Polish reform. As noted in the following table,these would be small but synergistic. In fact, the entire comprehensive process of reform needs the agreement and reinforcing input of all actors—Polish Government, Polish society, international financial institutions, Western, creditors, and the Soviet Union. The likely agreements and implementation of programs emanating from the Roundtable makes programs more possible but certainty not assured.

Ideally, the relationship of Polish initiatives, multilateral programs from international financial organizations, bilateral programs between Poland and the United States, bilateral programs with the individual West European countries and bilateral programs with the U.S.S.R. should all be parallel, even simultaneous. To be effective the Polish programs possibly after the Roundtable must be supported by the workers and peasants. Without a full package of Western and Soviet committments meeting the conditions of their external supporters will be difficult. President Bush referred to a "Billion dollar" program. Some credibility for such a collective figure would assist those in Poland being asked to face reductions in real income and some unemployment to accept the conditions of IMF-World Bank. Specific country programs could be established of working committees, e.g., a Polish group led by the Roundtable negotiators on economics, Baka and Trzeciakowski, and senior economic officials from U.S. Departments of State and Treasury.

- Polish Initiatives and Multilateral Programs: Creating a Stable Environment

Polish Initiative	*Multilateral Response*	*Impact on Polish Recovery*
Reform	Paris Club rescheduling	Debt servicing
	IMF stabilization program.	Eliminating the inflationary overhang
	IFC program	Strengthening private sector
Restructuring	World Bank projects	Modernization and efficiency
		Domestic growth
		Competitiveness in world market
Renewal	Precondition of all	Political and economic reform tied

- Polish Initiatives and U.S. Programs: Small Money but Synergistic Impact

Reform	Church Agricultural Foundation ($10 million)
	Surplus Agricultural Commodities (Section 410)
	Rockefeller Foundation (private agriculture)
Restructuring	Science and technology exchanges
	Trade and joint ventures
	OPIC programs
	Extension of GSP status to Poland
Renewal	Medical assistance, Krakow Children's Hospital, support for orphaned and handicapped children
	Cultural and educational exchange
	Judaic studies project

- Polish Initiatives and Western Developed Country Consensus [to parallel above initiatives and programs]
- Polish Initiatives and Soviet Consensus on Extension of Perestroika

It has long been a Polish and U.S. position that economic and political reform are both necessary. Therefore closely allied to implementation of credible domestic economic programs consistent with the Roundtable agreement in generating the support of the Polish people and U.S. and other Western support are credible progress in political pluralism:

- Steps should be taken toward implementation of elective reform and the establishment of an effective, pluralistic legislature (the SEJM). Likewise, the development of independent associations that may participate in a pluralistic process at the local and national level;
- Steps should be taken toward legal reform ensuring an independent judiciary, an independent legal profession, and the initiation of the rule of law;
- Steps should be taken toward trade union pluralism adhering to criteria of the International Labor Organization and Western norms of trade union independence. The application of the "German formula" for multiple unions with one bargaining unit may be practical.

In each of these areas international and U.S. organizations may be helpful in facilitating pluralism.

- Democratic processes, including pluralistic, separation of powers, may be facilitated by foundation support for those who have led in leadership and democratic institution-building in Western countries such as the Rockefeller, Ford, German Marshall Fund, and other foundations;
- Legal education and reform have been facilitated by the American and International Bar Associations among others;
- The AFL–CIO has already been active in the Roundtable process, fostering democratic and professional, independent trade unions;
- Improvement in environmental quality can be attained by harnessing global expertise including the World Wildlife Association and the myriad Western environmental groups;

- Improvement in medical and health care professionalism can be achieved by drawing on the good offices of Project Hope, the American Medical Association, and other health and medical groups.

The agreements of the Roundtable seem to provide a basis for a national consensus in Poland and between Poland and its more influential foreign partners. The threshold of policy change may have been crossed but reassuring, economical and political health await the implementation of both the letter and spirit of the agreements.

Program	Description	Significance	Status
U.S. GOVERNMENT			
Private agriculture	Funds donated by the United States and several European countries are being managed by the Agricultural Committee of the Polish Catholic church and applied to water projects (the drilling of deep-water wells) in villages of privately owned farms where use of polluted river water currently reduces the quality of private farmers' output. The hard currency donated from abroad will be used to purchase agricultural equipment and pipe installation materials; pipe will be purchased domestically by cooperatives comprised of private farmers in each village.	The project could have a generally positive impact on private agriculture, both in improving its output and in establishing clear rights for newly formed cooperatives. It features innovative aspects of the Polish reform proposals by using new financial instruments, cooperatives, and privatization. In addition, the foundation is assured non-discriminatory taxation and treatment. The Church Agricultural Committee estimates that up to 9,000 farms could benefit from this project in the first five years and annual income could increase by $400 per farm.	P.L. 100–202, Continuing Appropriations for FY 1988, provided up to $10 million, available until expended, to be managed by the Polish Catholic Church or other nongovernmental organizations. $5.75 million is being spent in FY88 and the rest will be used in FY89. The Catholic Relief Services is administering the aid.
Solidarity	Funds have been appropriated within the context of U.S. foreign assistance, for the support of Solidarity. Lech Walesa informed the Congress that the initial $1 million appropriated in FY87 would be used to purchase medical equipment, rather than to support the organization's own operating expenses. The second $1 million (appropriated for FY88) will be administered by the National Endowment for Democracy.	The United States has long supported Solidarity, with assistance usually provided through international labor organizations, rather than through public, earmarked appropriations. Solidarity's offer to use the funding for medical equipment followed accusations by the Polish government that Solidarity represented a "foreign agent" of the United States if it accepted directly appropriated U.S. funds.	P.L. 100–202, Continuing Appropriations, contains $1 million for "support of democratic institutions and activities in Poland" in FY88. This money is being administered through the National Endowment for Democracy. The House approved an additional $2 million for "the independent Polish trade union Solidarity" in FY 1989 in H.R. 4637, the Foreign Assistance and Related Programs Appropriations bill, of which $1 million is to support Solidarity's Social Fund project, and $1 million is to support the union through the AFL–CIO's Free Trade Union Institute. The Senate approved $1 million for Solidarity in FY89; H.R. 4637 is currently in conference. $1 million was appropriated previously, as part of the 1987 Supplemental Appropriations bill.

A STOCKTAKING OF PROGRAMS FOR POLAND: U.S. GOVERNMENT, MULTILATERAL, AND PRIVATE SECTOR ACTIVITIES—MARCH 13, 1989—Continued

Program	Description	Significance	Status
Judaic studies	A cooperative program of Judaic studies is being established among the University of Connecticut, Hebrew University, and Jagiellonian University—each of which holds extensive Judaic archives. The United States would provide zlotys from its holdings for support of the reconstruction, renovation, and maintenance of the Research Center on Jewish History and Culture of Jagiellonian University.	The project promotes educational exchange and the preservation and use of the significant Polish records of Jewish history. It will promote the study of events related to the Holocaust in Poland which have not been fully explored and discussed under the Communist regime.	P.L. 100–202, Continuing Appropriations, makes available the equivalent of $500,000 in nonconvertible zlotys for support of the Research Center at Jagiellonian, after satisfaction of pre-existing commitments to use these funds. P.L. 100–461 authorized the use of both nonconvertible and convertible Polish currencies for this project. The zlotys will be available as soon as the Joint Commission (see below, Donations of Surplus Commodities) is formed.
Science and technology exchange	In September 1987, the United States and Poland signed a new agreement on Scientific and Technological Cooperation. A joint commission (comprised of 4 Americans and 4 Poles) was appointed to administer the agreement and held its first meeting in Washington in June. Although funding for new S&T exchange projects will not begin until FY 1989, bilateral consultations and project development activity have been taking place during 1988.	Exchanges in science and technology may strengthen Polish independence in S&T and improve productivity and competitiveness. In addition, by improving the conditions for research in Poland, exchanges may help dampen the "brain drain" of promising young scientists who are seeking more opportunities outside Poland.	An authorization of $1 million for implementation of the S&T Agreement is contained in P.L. 100–418, the Omnibus trade bill, but there was no matching appropriation approved. The State Department is making available $600,000 from regional S&T funds for support of the agreement.
Donations of surplus agricultural commodities.	Under Section 416 of the Agricultural Act of 1949, surplus CCC agricultural commodities would be donated to the Government of Poland. The Polish Government would then be required to sell them; the proceeds would be given to nongovernmental agencies in Poland to carry out various humanitarian activities.	The projects to be supported through the mechanism of a Polish-American joint commission would be aimed at improving the quality of life of the Polish people and would support the activities of private, non-governmental independent institutions.	P.L. 100–418 contains authorization for the donation of up to 8,000 metric tons of eligible agricultural commodities each fiscal year from 1988 to 1992. The law also establishes a joint commission composed of Polish government representatives, representatives of Polish non-governmental agencies, and non-voting U.S. representatives from the U.S. embassy in Warsaw. The joint commission would determine eligible activities to be supported by sales of commodities. Activities already authorized by the Congress that require funding through these sales include the Judaic studies program, support for handicapped and orphaned children, and the American Children's Hospital in Krakow.

Medical assistance	Funds would be appropriated for the purchase, transport and distribution of medical supplies and hospital equipment, to be administered through private and voluntary organizations. This assistance would supplement long-time U.S. support for the Children's Hospital in Krakow.	Such assistance would help to alleviate severe shortages of medicines and equipment in hospitals in Poland, contributing to some improvement in the conditions of life for Polish citizens.	P.L. 100–418 contains authorization for $2 million to be spent for medical assistance in each FY 1988 and 1989. An appropriation of $2 million for FY 1989 is recommended in the Foreign Assistance Appropriations bill (H.R. 4637). In addition, P.L. 98–266 authorizes the expenditure of excess zlotys for support of the American Children's Hospital in Krakow.
Trade facilities	The first meeting since martial law of the official United States-Poland Joint Trade Commission took place February 9–11, 1988 in Washington. Representatives from the U.S. side came from Commerce, State, Treasury, USTR, Agriculture, Transportation, and OPIC.	The resumption of regular, governmental meetings on trade relations reflects the official reengagement which has taken place since the last sanctions were lifted in February 1987. This forum provides an opportunity for discussing bilateral trade problems and potential.	Total bilateral trade increased 50% in 1987 (U.S. exports up 56%; Polish exports up 27–28%). Poland has regained MFN status but the absence of credits and financing prospects continues to constrain trade. The U.S. attended the Poznan Trade Fair again this June; also, a new Working Group on Joint Ventures has been established, suggesting that JVs may be developing. Boeing has been granted an export license for selling or leasing several 767 jets to Poland.
Official credits and guarantees	With the lifting of sanctions, Poland regained legal eligibility for government credits from Eximbank and the Commodity Credit Corporation as part of its restored MFN status. Proposals for Eximbank and CCC credits must be judged on a commercial basis, i.e., reasonable expectation of repayment.	New credits from various sources may be necessary to enable Poland to import needed equipment, spare parts, etc., for export industries. A stronger export sector is important for increasing earnings of hard currency and repaying the debt.	No credits or guarantees have been extended by the U.S. Government, pending further improvements in the overall Polish economic situation. Deputy Secretary Whitehead stated in early 1988 that "if developments are favorable, we will be giving Poland every support, including the support of new credits, when and if the IMF agreement is completed."

A STOCKTAKING OF PROGRAMS FOR POLAND: U.S. GOVERNMENT, MULTILATERAL, AND PRIVATE SECTOR ACTIVITIES—MARCH 13, 1989—Continued

Program	Description	Significance	Status
Overseas Private Investment Corporation (OPIC).	OPIC provides insurance for U.S. private investments in more than 100 countries against certain political risks (inconvertibility, expropriation, and political violence), provides project finance in the form of direct loans and loan guarantees, and offers pre-investment services. It is self sustaining, receiving no Congressional appropriations.	OPIC facilities, if extended, could contribute to involvement by small and medium-sized U.S. businesses in joint ventures in Poland and encourage privatization efforts.	The (former) President of OPIC, Craig Nalen, visited Warsaw and a model agreement was presented to the Government of Poland. Authorization for OPIC programs in Poland would require an exemption for Poland from Section 620(f) of the Foreign Assistance Act which prohibits U.S. assistance to Communist countries, and certification (or waiver) by the President to Congress that Poland respects certain workers' rights, including the right to free association and collective bargaining. In floor debate on the OPIC Reauthorization bill (H.R. 3797), the House rejected the extension of OPIC privileges to Hungary; Sen. Levin introduced legislation that would authorize OPIC privileges for Poland under certain conditions (S. 2702). Currently, two Communist countries are authorized for OPIC programs—Yugoslavia and the PRC.
Educational and cultural exchange.....	Although the United States does not have an umbrella cultural exchange agreement with Poland, educational and cultural exchange programs have long been active. The United States supports privately administered exchanges through IREX, the National Academy of Sciences and the Fulbright program. The USIA is also engaged in activities such as travelling exhibits, performing arts exchange, international visitors programs, and youth exchanges.	These exchanges create opportunities for interaction and cooperation across a broad spectrum of disciplines—social sciences, humanities, hard sciences, arts, etc., and diverse groups in society.	In December 1987, Poland lifted its ban on USIA activities in Poland and stopped jamming Voice of America and Radio Free Europe broadcasts. USIA Director Wick travelled to Poland in March 1988 to open a new American exhibit and discuss new exchange programs. Under consideration are proposals to establish reciprocal cultural centers in Poland and the United States and to create an office of Polish-American academic exchanges in Warsaw to facilitate government- and privately-funded educational exchange.

MULTILATERAL EFFORTS

World Bank	A project loan of $250 million is under consideration for support of specific export industries. The purpose of the loan would be to focus new resources on critical inputs to improve Poland's convertible currency trade balance—investment in chemical, engineering, and other enterprises, and technical assistance to strengthen banks, complete sectoral studies for restructuring, and assist in export marketing. A $75 million loan is also planned for the agro-industrial sector, supporting rehabilitation, modernization, and expansion of existing agro-processing industries in order to expand exports. Two projects focused on the energy sector have also been identified (requiring loans of about $250 million each), but these would follow implementation of the other projects.	These projects are designed to support the basic changes in Poland's economy that will serve as the foundation for longer-term economic improvement. If export industries are strengthened and the current account balance improves, other lenders may gain confidence for lending. Progress in restructuring investment and developing a financial sector is a necessary first step for assuring that new funds are directed to productive enterprises.	Although planning for the first loan is virtually complete, before seeking Board approval, the Bank would like to see evidence that reform initiatives in Poland have reached a "threshold level" (financial discipline, reallocation of resources, implementation of price and wage reforms) and that an IMF program is likely to be forthcoming. The Board will meet in October 1988.
International Monetary Fund	An IMF standby program for Poland, if agreed to, could provide new credits in the range of 300–350 million SDRs within the framework of a Polish reform program. It would also for IMF monitoring of Polish performance.	An IMF program, operating under strict conditionality, seems to be a critical element not only for improving Polish economic performance, but also for establishing increased confidence and support among other institutions and creditors.	The IMF is apparently awaiting further assurances from Poland that the necessary policies will be implemented to achieve a current account balance in the short term and action by the Polish Government to sign and implement bilateral agreements with the Paris Club governments. Also of concern to the IMF is action to move toward equilibrium—systemic price reform and demand management.
Paris Club	The Paris Club is comprised of Poland's major government creditors; total Polish debt to Paris Club countries is estimated at $28–29 in 1989. (Debt to the United States is about $2.4 billion currently).	Given the unsupportable level of Poland's debt-service burden, restructuring of its debt to official creditors, and perhaps conversion of some debt to local programs, are actions that would reduce the immediate debt burden and allow Poland to devote more resources to modernizing the economy.	A rescheduling agreement was signed in December 1987 that covers Poland's arrears from 1986 and 1987 and both principal and interest due in 1988, a total of $8.8 billion. This is to be paid over ten years with five years' grace. Austria may convert some debt to projects in Poland; the FRG may also be interested in conversion but will likely wait for an IMF program to be agreed on and for U.S. action.

A STOCKTAKING OF PROGRAMS FOR POLAND: U.S. GOVERNMENT, MULTILATERAL, AND PRIVATE SECTOR ACTIVITIES—MARCH 13, 1989—Continued

Program	Description	Significance	Status
Commercial creditors	Total Polish debt to commercial banks is estimated at $9 billion in 1989.	The rescheduling of debt payments over a longer period of time and interest rate reduction would decrease Poland's debt service burden, make payment obligations more predictable, and release resources for modernizing the economy. Innovative financing schemes, such as debt-equity swaps, might be pursued by commercial banks once there is greater evidence of Polish economic reform implementation. Such actions would be important for reducing the overall debt service burden.	A rescheduling agreement was signed in July 1988 covering $8.2 billion due from December 1987 to 1993. The schedule and terms for the second half of the payments, those due after 1990, are conditional on an IMF standby program being in place. In the course of negotiations, the banks agreed to lower the interest rate applied to Poland's repayments from the original 1.7 percentage points above Libor to 13/16 percentage point.
International Finance Corporation	The IFC, an affiliate of the World Bank, provides and brings together financing, technical assistance and management to develop productive investment in member countries. Its investment is directed primarily to privately owned enterprises but will participate in enterprises with an element of government ownership if there is no alternative. In all cases, its objective is to encourage movement toward fuller private ownership and control.	IFC projects, though small, would be significant as an additional, non-governmental source of critically needed financing and management assistance chanelled specifically to private sector activities and based on criteria of economic effectiveness. Poland's private and cooperative sectors, already the largest among the East European countries, would be further bolstered.	Poland became a member of the IFC in December 1987. In November 1988, the IFC approved a loan for $17.9 million to be used to expand six frozen food processing plants of the Hortex Agricultural Cooperative. The frozen fruit and vegetable products are to be exported. The IFC is also reportedly interested in supporting a Polish-Japanese joint venture in the glass industry, as well as potential projects in leather good, toy manufacturing, and tourism.
PRIVATE SECTOR			
Rockefeller Brothers Fund	The Foundation for the Development of Polish Agriculture has been established with funds from the Rockefeller Brothers Fund, the Ford Foundation, the Rockefeller Foundation and Western credits to invest in Polish agricultural projects. The earnings of the ventures will be used to support other technical, educational, and commercial projects in the Polish private agricultural sector. It will be managed by a council of prominent Western agronomists and officials, and a minority of Polish experts.	Although the Foundation must receive approval for commercial projects from the Ministry of Agriculture, it represents a significant departure in allowing foreign investment in the private sector with majority Western management. By focusing on the critical agricultural sector, these projects can promote both increased exports and improved food supplies for the Polish population.	The first project was announced in February 1988. It will involve the investment of $2.4 million to stimulate Polish ham production and exports and expand production of pork for the domestic market, by importing high quality Western feed, packaging materials, and processing equipment. Future projects might involve assistance to private growers of fruits and vegetables, development of expanded freezing and other means of reducing spoilage, and improved milk handling.

Debt-for-nature swaps.....	The World Wildlife Fund and other groups have developed programs in several countries for debt-for-nature swaps—Third World debt held by banks is donated or purchased by conservation organizations, which apply it to conservation and environmental projects in the debtor country.	If applied to Poland, debt-for-nature swaps would serve to both reduce somewhat the country's debt burden, and provide new resources for desperately needed environmental projects. These ventures might also support the efforts of active nongovernment environmental groups in Polish society such as the Freedom and Peace movement.	Secretary of Treasury Baker expressed support for debt-for-nature efforts as consistent with U.S. policy on managing international debt; a recently issued IRS ruling may facilitate the transfer of debt from banks to non-profit organizations. The World Wildlife Fund is interested in Poland and some discussions have taken place, particularly with World Wildlife Fund Netherlands which could take the lead on a Polish program with support from the German and U.S. branches of the WWF.

98-890 (44)